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FM AMEMBASSY CANBERRA

TO RUEHC/SECSTATE WASHDC PRIORITY 1568
INFO RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RUEHWL/AMEMBASSY WELLINGTON 5807
RUEHJA/AMEMBASSY JAKARTA 5456
RUEHGP/AMEMBASSY SINGAPORE 1744
RUEHKO/AMEMBASSY TOKYO 3562
RUEHUL/AMEMBASSY SEOUL 9816
RUEHBJ/AMEMBASSY BEIJING 9492
RUEHBN/AMCONSUL MELBOURNE 6390
RUEHPT/AMCONSUL PERTH 4654
RUEHDN/AMCONSUL SYDNEY 4615

UNCLAS CANBERRA 000519

SENSITIVE
SIPDIS

STATE FOR EAP/APN AND EEB; STATE PLEASE PASS USTR/BISBEE

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TAGS: ECON EFIN AS

SUBJECT: SURPRISE, AUSTRALIA NOT IN RECESSION

REF: CANBERRA 452

¶1. (U) Summary: National accounts today showed seasonally adjusted growth of 0.4% in March quarter, largely driven by imports and exports; private business investment remains weak. This result defied the conventional wisdom that the accounts would show Australia in recession. The Rudd Government claims its economic stimulus was a big factor, but says tough times are still to come. End summary.

BETTER THAN EXPECTED

¶2. (U) Australian Bureau of Statistics (ABS) figures released today (June 3) showed growth for the March quarter of 0.4% seasonally adjusted (1.6% annualized). Trend growth for the March quarter was down 0.1%, but the seasonally adjusted numbers are the ones making headlines. The ABS found that the main positive contributors to the growth were imports (1.6 percentage points), exports (0.6 points), and household final consumption (0.3). The biggest net drag on growth was private business investment (minus 1.1 percentage points); total capital formation was down 4.8% for the quarter, and total investment in dwellings dropped 4.5%. Domestic demand declined 1.0% for the quarter, non-farm GDP was down 0.5% (trend), and real domestic income declined 1.4%.

¶3. (U) In his statement on June 2 announcing no change in interest rates (cash rate remains 3.0%), Reserve Bank (RBA) chief Glenn Stevens said as he has since April that the Australian economy is in contraction, but said better conditions in global financial markets and other evidence of stabilization of the international economy were improving Australian prospects.

¶4. (U) This was a surprise. Observers nearly unanimously expected negative growth for the quarter, and even Prime Minister Rudd and Treasurer Wayne Swan had been using the word "recession" in recent weeks.

REACTION

¶5. (U) Response to the ABS news was immediate. Rudd said the national accounts showed the GOA's economic stimulus program was working, and asserted that absent that such a focused and quick government response (over A\$50 billion/US\$40 billion since September) Australia would be in recession. Rudd stressed however that tough times were still ahead and that unemployment could be expected to continue to rise.

Opposition Leader Malcolm Turnbull complained that many sectors remain weak. Economists have emphasized the weak corporate sector results and the decline in demand as concerns that will foreshadow dropping profits and further job losses.

¶6. (SBU) Comment: Whether in a technical recession or not, Australia's economic performance remains weak, with growth for the 12 months ending March 31 at 0.4% and unemployment at 5.4% and expected to rise when new figures are released next week. Still, this is a performance that would be the envy of most other OECD economies. When the budget was announced in May (ref A), many criticized Swan for being too optimistic in predictions for growth. But a few observers thought the GOA was low-ballng the economy's short-term prospects to collect the political pay-off when things turned out better than expected; Virgin Blue government relations chief Tony Wheelens, who has good relations with the Rudd Government, made exactly that point to econoff shortly after the budget's release. Whether planned calculation or fortuitous happenstance, this is a bright spot for the economy and the Rudd Government.

CLUNE